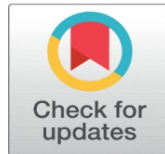
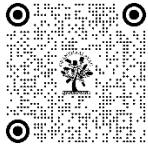


# ROLE OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) IN INDIAN ECONOMY

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## ABSTRACT

The Micro, Small and Medium Enterprises (MSMEs) sector has been recognized as engine of growth all over the world. To foster economic development, generation of jobs, reduction in poverty and promotion of equality, the role of micro, small and medium enterprises (MSMEs) becomes crucial in every economy of the world. The MSME sector encourages equitable distribution and inclusive growth as an engine of economic progress. MSMEs have the highest employment growth rate, which has a positive impact on export and industrial growth. The primary objective of this article is to analyse MSMEs performance and their contribution to Indian economy.

**Keywords:** MSME, Economy, Development, Employment

## 1. INTRODUCTION

Micro, Small and medium enterprises are an integral part of the economy. The Micro, Small and Medium Enterprises (MSMEs) have often been termed as 'engine of growth' for all developing countries including India. They provide employment opportunities to the weakest and poorest strata of the society, giving them a way out of the perpetual poverty that they seem doomed to. MSMEs are providing immediate large scale employment, with lower investments and prove to be a second largest manpower employer, after agriculture and occupy a position of prominence in the economy. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural and backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth.

## 2. OBJECTIVES

- 1) To analyse the definition of MSMEs.
- 2) To analyse the impact of MSMEs in Indian Economy.
- 3) To highlight the problems faced by Indian MSMEs sector.

### 3. METHODOLOGY

The study is mainly based on the secondary data collected from related Literature published in the journals, websites, newspaper, books, Statements, reports. The nature of study is primarily descriptive.

### 4. LITERATURE REVIEW

a) Parthajeet Das (2017) in his paper titled “Micro, Small and Medium Enterprises (MSME) in India: Opportunities, Issues & Challenges” explores potential of MSME sector in India and some issues and challenges faced by such emerging enterprises like insufficient capital, lack of skilled human resources, insufficient technology, lack of adequate capital and credit, lack of access to new technology and other such issues that hinder the development of MSMEs in India.

b) Srinivas K T, (2013) state that the performance of micro, small and medium enterprises, and their contribution in India's economic growth and concluded that MSMEs play a significant role in inclusive growth of Indian economy.

c) Papiya Manna and Dr. Tapas Mistri (2017) analyzed in their research that MSMEs are increasing year by year and its share in national or state GDP has also shown increasing trend with some fluctuations.

### 5. CLASSIFICATION OF MICRO, SMALL & MEDIUM ENTERPRISES (MSMES)

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

**Manufacturing Enterprises:** The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are defined in terms of investment in Plant & Machinery.

**Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises are as below:

Manufacturing Sector	
Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

**Source: Ministry of Micro, Small & Medium Enterprises, Government of India**

The Government of India has introduced new MSME definition in accordance with Aatmanirbhar Bharat Package and it came into effect from 1<sup>st</sup> July, 2020. In revised guidelines, both manufacturing and service sector shall have the same limit of investment and turnover (which is newly introduced in the definition).

Revised MSMEs classification			
Composite Criteria: Investment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing and Service Enterprises	Investment < Rs. 1 crore and Turnover < Rs. 5 crore	Investment < Rs. 10 crore and Turnover < Rs. 50 crore	Investment < Rs. 50 crore and Turnover < Rs. 250 crore

**Source: Ministry of Micro, Small & Medium Enterprises, Government of India**

## 6. IMPORTANCE OF MSMEs IN THE ECONOMIC DEVELOPMENT IN INDIA:

### • EMPLOYMENT GENERATION:

MSMEs serve as significant sources of employment, particularly in economically backward regions. They provide opportunities for both skilled and unskilled labour, thereby contributing to job creation and reducing unemployment rates.

### • CONTRIBUTION TO GROSS DOMESTIC PRODUCT:

MSMEs play a vital role in India's economy, contributing significantly to the country's GDP. They account for around 30% of India's GDP, which is a substantial share considering the sector's importance. The share of MSME Gross Value Added (GVA) in all India Gross Domestic Product (GDP) during the year 2019-20, 2020-21 and 2021-22 was 30.5%, 27.2% and 29.2% respectively.

### • PROMOTION OF ENTREPRENEURSHIP:

MSMEs foster entrepreneurship by providing a platform for individuals to start and grow their businesses with relatively low investment requirements. They encourage innovation and creativity, driving economic dynamism and fostering a culture of entrepreneurship within the society.

#### 1) REGIONAL DEVELOPMENT:

MSMEs play a crucial role in regional development by establishing businesses in remote or underdeveloped areas, thereby promoting balanced economic growth across different regions. They decentralise economic activities, reducing the concentration of industries in urban centres and spreading economic opportunities to rural and semi-urban areas.

#### 2) EXPORT PROMOTION:

MSMEs play a significant role in India's export sector, contributing around 45% to the country's total exports. They have been instrumental in driving India's export growth, diversifying export products, and increasing the country's global trade presence. The share of export of MSME specified products in all India exports during the year 2020-21, 2021-22 and 2022-23 was 49.4%, 45.0% and 43.6% respectively.

#### 3) INNOVATION:

MSMEs are hotbeds of innovation, constantly developing new products, processes, and technologies to stay competitive in the market. They drive technological advancements, improve productivity, and facilitate the adoption of innovative practices across industries, contributing to overall economic growth and development.

#### 4) REDUCTION OF INCOME DISPARITIES:

MSMEs play a crucial role in reducing income disparities by providing opportunities for wealth creation and income generation among diverse sections of society.

#### 5) SUPPORT FOR LARGE INDUSTRIES:

MSMEs often serve as suppliers and subcontractors to large industries, providing them with essential goods, components, and services.

## 7. CHALLENGES FACED BY MSMEs:

The MSME sector in India deals with certain challenges from time to time that can impact its long-term growth. Some of the key challenges faced by MSMEs are given below:

### 1. Lack of skilled workforce:

2. Non-availability of skilled workforce and better managerial/entrepreneurial expertise at affordable cost near the location of enterprises is another such big challenge for the MSMEs in our country. Lack of managerial competence, absence of proper training on resource planning and capital management etc. hinders the growth of enterprises. This can affect the quality of work and productivity.

### 3. Access to finance:

4. MSMEs often need help accessing finance from financial institutions. This is due to a need for more collateral, complex loan procedures, and high interest rates.

### 5. Poor Technology:

6. MSMEs often use traditional methods and require more capital to invest in the latest technologies. Poor technical expertise and inadequate access to technology contribute to the problem.

### 7. Lack of Infrastructure:

8. Deficiencies in the infrastructure and poor support facilities marked by inadequate access to basic facilities like water, power supply, road/rail connectivity etc. adversely affect this sector and contribute to enhance their operational cost by rendering the MSMEs less competitive in the challenging market situations.

**9. Emergencies:**

MSMEs are also vulnerable to external shocks, such as economic downturns and natural disasters

## **8. SUGGESTIONS**

Some suggestions to improve the performance of MSMEs are indicated below;

**A) EASY ACCESS TO FINANCE AND CREDIT :**

Institutional finance/credit from banks and other financing institutions should be promptly available without long and cumbersome procedures. Sanction of credit / loan applications by public sector banks should be made within a reasonable time frame at affordable and reduced rate of interest.

**B) STEPPING UP INFRASTRUCTURAL AND SUPPORT FACILITIES:**

Deficiencies in basic infrastructural facilities like water, power supply, road/rail and telephone connectivity, etc. should be addressed on priority basis. Use of solar or renewable energy as an alternative source should be encouraged in rural areas on subsidized basis.

**C) MARKET ACCESS:**

Providing market access to MSMEs can help them expand their customer base and increase their revenue.

**D) SKILL DEVELOPMENT :**

Initiatives should be taken for skill development of human resources. Providing training and skill development programs for MSMEs can improve their efficiency and productivity. Awareness programmes and TV/Radio talks should be conducted.

## **9. CONCLUSION**

MSMEs plays a vital role in the economic development of India, particularly in the rural economy. It helps in generating employment opportunities in the rural areas with low capital, raising the real income of the people, contributing to the development of agriculture by reducing disguised unemployment, reducing poverty, migration, economic disparity, unemployment. MSMEs finds it difficult to take off is due to lack of capital, risk taking and innovation. Promotion of MSMEs are extremely important in the context of producing gainful employment and reducing the widening disparities between the rural and urban. MSMEs provide self dependency and it is the way to solve the problem of unemployment in a populous country like India.

## **CONFLICT OF INTERESTS**

None.

## **ACKNOWLEDGMENTS**

None.

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